Media Release

OCBC Group Reported Second Quarter 2016 Net Profit of S$885 million

Second quarter earnings down 15% year-on-year from lower insurance income, and up 4% quarter-on-quarter

Banking operations earnings flat YoY and up 3% QoQ

Interim dividend maintained at 18 cents per share

Singapore, 28 July 2016 - Oversea-Chinese Banking Corporation Limited ("OCBC Bank") reported a net profit after tax of S$885 million for the second quarter of 2016 ("2Q16"). Against a strong quarter a year ago ("2Q15") which included a substantial gain from the sale of an equity investment under insurance subsidiary Great Eastern Holdings ("GEH"), net profit after tax was 15% lower, driven by a decline in investment income and unrealised mark-to-market losses in the insurance portfolio.

Earnings contributions to the Group from GEH fell 66% to S$78 million from S$230 million a year ago, partly due to the absence of a S$105 million gain from the sale of an equity investment in 2Q15. GEH recorded strong underlying insurance business growth during the quarter, but its quarterly earnings were affected by unfavourable financial market conditions which resulted in unrealised mark-to-market losses in its bond and equity investment portfolio. Excluding GEH, net profit from the Group's banking operations was slightly down 1% year-on-year but 3% above the previous quarter ("1Q16").

For the second quarter, net interest income declined 2% to S$1.26 billion from S$1.28 billion a year ago, as a drop in interest earning assets offset improvements in net interest margin. Customer loan balances of S$205 billion contracted 2% from a year ago from lower trade loans and reduced offshore borrowings of Chinese entities as a result of more favourable onshore borrowing rates. These offset increases in consumer loans and loans to the building and construction sector. Net interest margin for the quarter rose 1 basis point to 1.68% from a year ago from improved customer loan yields.

Non-interest income was 16% lower at S$788 million as compared with S$939 million a year ago. Fee and commission income fell 5% to S$417 million, largely from lower brokerage and investment banking income. Net trading income, primarily treasury-related income from customer flows, rose to S$123 million from S$70 million in 2Q15. Net realised gains from the sale of investment securities of S$44 million were lower as compared with S$166 million the previous year, which had included a S$136 million realised gain from the sale of an investment in GEH's equity portfolio (the Group's share of net profit after tax and non-controlling interest was S$105 million). GEH's underlying insurance business performed well. Total weighted new sales climbed 23%, driven by growth across all distribution channels in Singapore and Malaysia, and new business embedded value rose 24% from healthy sales growth. However, profit from life assurance of S$108 million was 19% lower as compared to a year ago, largely due to unrealised mark-to-market losses in GEH's equity and bond investment portfolio.

The Group's share of results of associates of S$103 million was slightly above S$102 million in 2Q15.

Operating expenses for the quarter rose a modest 1% to S$932 million from S$918 million a year ago as a result of disciplined cost management. The Group's cost-to-income ratio was 45.5%. Allowances for loans and other assets of S$88 million were higher than S$80 million a year ago.

As compared with 1Q16, the Group's net profit after tax rose 4%. Net interest income fell 4%, largely from a 7 basis points decline in net interest margin from a lower loan-to-deposit ratio and a decline in interbank placement rates. Net yield from customer loans and deposits was relatively stable quarter-on-quarter. Non-interest income rose 5% as growth across most fee income categories and higher life assurance profit more than offset lower investment income. Net trading income was stable quarter-on-quarter. Operating expenses rose 1% only, as cost containment measures have been put in place since the beginning of the year in view of the slowing market. Net allowances for loans and other assets were 48% below the previous quarter from lower portfolio and specific loan allowances.

First Half Performance

Net profit after tax for the first half of 2016 ("1H16") of S$1.74 billion was 15% below S$2.04 billion a year ago ("1H15"), which mainly reflected reduced earnings contributions from GEH. Excluding GEH, net profit after tax from the Group's banking operations fell 2%, as operating profit growth was offset by higher allowances set aside.

Net interest income for the Group rose 1% to S$2.57 billion, led by a 7 basis points rise in net interest margin, which more than compensated for a fall in average asset volumes. Non-interest income of S$1.54 billion was down 14% year-on-year. Fee and commission income declined 5% to S$791 million, while net trading income, mainly comprising customer flow income, was up 26% at S$245 million. Net gains from the sale of investment securities of S$103 million were lower than S$209 million in 1H15, which included a S$136 million realised gain in GEH's equity investment portfolio. Profit from life assurance of S$191 million in 1H16 declined from S$331 million a year ago, as a result of unrealised mark-to-market losses in GEH's investment portfolios.

OCBC's private banking business continued to achieve strong growth. Its assets under management as at 30 June 2016 grew 12% to US$61 billion (S$82 billion) from US$54 billion (S$73 billion) a year ago. The Group's 1H16 wealth management income, comprising income from insurance, private banking, asset management, stockbroking and other wealth management products, of S$1.00 billion was 21% lower than S$1.28 billion a year ago, mainly due to lower income contributions from GEH. Excluding GEH, wealth management income increased 5% year-on-year. As a share of the Group's total income, wealth management contributions were 24% in 1H16 and 29% a year ago.

The Group's first half operating expenses were up 4% at S$1.86 billion, mainly from staff-related costs. Net allowances for loans and other assets of S$255 million were higher than S$144 million set aside a year ago.

Income from associates of S$209 million in 1H16 rose 9% from S$191 million a year ago, largely attributable to increased contributions from associated company Bank of Ningbo.

Annualised return on equity for 1H16 was 10.3%, lower than 13.3% a year ago. Annualised earnings per share amounted to 83.5 cents, as compared to 101.8 cents a year ago.

Allowances and Asset Quality

Net allowances for loans and other assets were S$88 million in 2Q16, as compared with S$167 million the previous quarter and S$80 million a year ago.

Specific allowances for loans, net of recoveries and write-backs, were S$52 million and were the equivalent of 10 basis points of loans on an annualised basis, while portfolio allowances of S$8 million were set aside.

The Group's asset quality remained sound. The Group had minimal loan and investment securities exposures to Europe. The non-performing loans ("NPL") ratio increased to 1.1% from 1.0% the previous quarter. As compared to the NPL ratio of 0.7% a year ago, the year-on-year increase largely reflected downgrades of a number of corporate accounts in the oil and gas support services sector which required their loan repayment terms to be restructured.

Prudent coverage ratios were maintained and total cumulative allowances represented 100% of total non-performing assets ("NPAs") and 271% of unsecured NPAs.

Funding and Capital Position

The Group maintained a strong funding position and was well-capitalised. As at 30 June 2016, customer loans and deposits were S$205 billion and S$246 billion respectively. The loans-to-deposit ratio was 82.2% as compared with 84.3% a year ago. The current and savings deposits to total non-bank deposits ratio of 49.3% was higher than 46.0% a year ago.

For 2Q16, the average Singapore dollar and all-currency liquidity coverage ratios for the Group (excluding OCBC Wing Hang and OCBC Yangon branch which will be included in due course) were 273% and 130% respectively, higher as compared to the respective regulatory ratios of 100% and 70%.

The Group's Common Equity Tier 1 capital adequacy ratio ("CAR"), Tier 1 CAR and Total CAR as at 30 June 2016, were 14.9%, 15.5% and 17.5% respectively. Based on Basel III transitional arrangements, these ratios were well above the respective regulatory minima of 6.5%, 8% and 10%. In addition to these minimum capital requirements, a capital conservation buffer ("CCB") of 2.5% and countercyclical buffer of up to 2.5% will be phased in from 2016 to 2019. The CCB was 0.625% as at 1 January 2016, and will be increased by 0.625% each year to reach 2.5% on 1 January 2019. The Group's leverage ratio of 8.2% was above the 3% minimum requirement as guided by the Basel Committee.

Interim Dividend

An interim dividend of 18 cents per share has been declared for the first half of 2016, similar to the 18 cents interim dividend paid in 1H15. The Scrip Dividend Scheme will not be applicable to the interim dividend. The interim dividend payout will amount to approximately S$753 million, representing 43% of the Group's 1H16 net profit after tax.

CEO's Comments

Commenting on the Group's performance and outlook, CEO Samuel Tsien said:

"Our second quarter performance was resilient amid uncertain global economic conditions. Against a very strong second quarter of 2015 which included a substantial gain from the sale of an equity investment under Great Eastern, our earnings were lower as unrealised mark-to-market losses in our insurance subsidiary resulting from market volatility further reduced contributions to the Group. Excluding Great Eastern, operating profit from our banking operations was flat against the prior year and up 3% against the prior quarter. Credit quality is well-maintained, and our small European exposure was not adversely impacted by the recent market dislocations. We continued to be conservative in our loan classification and specific allowances provisioning to ensure that the Bank is prudently covered for the risks associated with the current operating environment.

We will continue to grow our businesses prudently, supported by our diversified sources of earnings and strong funding and capital position. We are well-positioned to weather the uncertainties ahead and capture new opportunities as they arise."

About OCBC Bank

OCBC Bank is the longest established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second largest financial services group in Southeast Asia by assets and one of the world's most highly-rated banks, with an Aa1 rating from Moody's. Recognised for its financial strength and stability, OCBC Bank has been ranked Asean's strongest bank and among the world's five strongest banks by Bloomberg Markets for five consecutive years since the ranking's inception in 2011.

OCBC Bank and its subsidiaries offer a broad array of commercial banking, specialist financial and wealth management services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services.

OCBC Bank's key markets are Singapore, Malaysia, Indonesia and Greater China. It has over 610 branches and representative offices in 18 countries and regions. These include the more than 330 branches and offices in Indonesia under subsidiary Bank OCBC NISP, and more than 110 branches and offices in Hong Kong, China and Macau under OCBC Wing Hang.

OCBC Bank's private banking services are provided by its wholly-owned subsidiary Bank of Singapore, which operates on a unique open-architecture product platform to source for the best-in-class products to meet its clients' goals.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the oldest and most established life insurance group in Singapore and Malaysia. Its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia.

For more information, please visit www.ocbc.com